

**REMARKS**

This Amendment and Request for Reconsideration is submitted in response to an outstanding Office Action (**Final Rejection**) dated June 12, 2008, the shortened statutory period for response set to expire on September 12, 2008 . Accordingly this response is timely and no extension of time is believed due. However, in the event that the Commissioner determines an extension of time is required, the undersigned petitions for any required extension of time and authorizes the Commissioner to charge any required fee to the Milbank deposit account 13-3250.

I. Status of the Claims

Please amend claims 1, 10, 15, 17, 18, 19, 20, 21, 22, 23, 24 and 25 as indicated above. Claims 1-25 are now pending in the application. Claims 1, and 17 - 25 are independent claims.

II. Rejections under 35 U.S.C. § 103

The Examiner has rejected claims 1-3, 5-7, 9-11, 15-16, 18 and 20-22 under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent Publication No. 2002/0023043 to Rudkin ("*Rudkin '043*")<sup>1</sup> in view of U.S. Patent Publication No. 2006/0155621 to Bell ("*Bell*"), and further in view of U.S. Patent No. 7,212,993 to Bodurtha et al. ("*Bodurtha*").

Dependent claim 4 is rejected under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent Publication No. 200410199449 [sic 2004/0199449]) ("*Rudkin '449*") in view of *Bell* and *Bodurtha* and further in view of U.S. Patent Publication No. 200210116310 [sic 2002/0116310] to Cohen et al. ("*Cohen*").

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<sup>1</sup> U.S. Pub. No. 2002/0023043 does not list *Rudkin* as an inventor and appears to be directed to entirely different subject matter. In another part of the Office Action, the Examiner has cited U.S. Pub. No. 200410199449 [sic 2004/0199449] which does list *Rudkin* as an inventor. On September 8, 2008 the Examiner confirmed that *Rudkin '043* is a mis-cite and that the Examiner intended to cite

Dependent claim 8 is rejected under 35 U.S.C. § 103(a) as being unpatentable over *Rudkin '449* in view of *Bell* and *Bodurtha* and further in view of U.S. Patent Publication No. 2002/0010663 to Muller ("*Muller*"), U.S. Patent Publication No. 200210042771 [sic 2002/0042771] to Shields ("*Shields*"), U.S. Patent Publication No. 2002/0133456 to Lancaster et al. ("*Lancaster*"), and U.S. Patent Publication No. 2005/0004854 to Jones et al. ("*Jones*").

Dependent claims 12-14 are rejected under 35 U.S.C. § 103(a) as unpatentable over *Rudkin '449*, in view of *Bell*, and *Bodurtha* and further in view of U.S. Patent Publication No. 2002/0194136 to Sullivan et al. ("*Sullivan*").

Independent claims 17, 19, and 23 - 25 are rejected under 35 U.S.C. § 103(a) as being unpatentable over *Rudkin '449* in view of *Cohen*, *Muller*, *Shields*, *Lancaster*, *Jones* and further in view of *Bodurtha*.

Regarding independent claim 1, which recites: a method for transfer of previously issued employee stock options without exercise of the stock options, the method comprising: providing a plurality of option value prices; determining a stock trading price corresponding to a particular one of the plurality of option value prices; receiving an employee stock option from an employee holding the employee stock option corresponding to the particular one of the plurality of option value prices without exercising the employee stock option; providing a value to the employee corresponding to the particular one of the plurality of option value prices in exchange for receiving the employee stock option from the employee; amending the employee stock option without exercising the employee stock option; transferring the amended stock option to a third party without exercising the amended stock option; and receiving a value from the third party corresponding to the amended stock option in exchange for transferring the amended stock

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*Rudkin '449* for the rejection.

option to the third party.

It is clear in original claim 1, and in claim 1 as it is now amended, that the recited steps in the method occur without exercise of the original employee stock option, or exercise of the amended stock option, and that this method concerns employee stock options that have already been issued, not the initial issue of the employee stock option. These are some of the central features of the presently claimed inventions and they are not disclosed by the cited references. In the cited references, where there is any transfer of the employee stock option, the transfer is in conjunction with initial issue (which is not actually a transfer), or in conjunction with exercise of the stock option. None of the references individually or in combination disclose transfers of previously issued employee stock options without exercise, in combination with all of the other factors in the claim.

*Rudkin '449*, which the Examiner relies on for disclosure of transfer of ESOs, describes valuation techniques for employee stock options, but actually teaches away from the claimed invention because it describes precisely one of the types of problems in lack of transferability for ESOs that is solved by the present invention. Following a heading titled "Non-transferrability", *Rudkin '449* at ¶ 0012 states (emphasis):

ESOs cannot be traded. Hence, there is no market price for them and the only way for employees to obtain value to meet liquidity requirements or to attempt to diversify their portfolio is to exercise them. However, the value the employee receives from exercising an ESO is the ESO's intrinsic value (i.e., stock price minus the ESO's strike price) instead of a market price that would equal the sum of the ESO's intrinsic value and its time value (i.e., the value associated with the possibility of future stock price increases). In addition, employees, unlike outside investors are generally unable to hedge the risk the option will decrease in value and are typically poorly diversified. For these reasons, employees will tend to place a lower value on ESOs and tend to exercise them earlier than would an outside investor. The net result is that ESOs will tend to be less costly to the company and worth less to employees than predicted by the Black-Scholes model.

Therefore, the Examiner's reliance on *Rudkin '449* for a transfer of a previously

issued ESO, without exercise of the ESO, is mis-placed. None of the other references cited by the Examiner provides that missing and essential element of independent claim 1. At least for that reason, Applicants request withdrawal of the rejection of independent claim 1 over the cited references of *Rudkin '449, Bell and Bodurtha*. Claims 2-16 depend directly or indirectly from independent claim 1 and include all of the limitations of claim 1 and are therefore allowable for the same reasons. Independent claims 18, 20, 21 and 22 have limitations similar to independent claim 1, and *Rudkin '449, Bell and Bodurtha* do not individually or in combination disclose all of those limitations. Withdrawal of the rejection as to claims 1-16, 18, 20, 21 and 22 over *Rudkin '449, Bell and Bodurtha* is respectfully requested.

Regarding independent claim 17, which recites a method for transfer of previously issued employee stock options without exercise of the stock options, the method comprising: using an option pricing formula to provide a plurality of option value prices arranged in an option-price grid; determining an average stock trading price over a predetermined period of time, the average stock trading price corresponding to a particular one of the plurality of option value prices; receiving an employee stock option from an employee holding the employee stock option without exercise of the employee stock option, the employee stock option corresponding to the particular one of the plurality of option value prices; in exchange for receiving the employee stock option, providing a first value, a second value and an investment value to the employee, the first and second values corresponding to the particular one of the plurality of option value prices, the first value provided to the employee at a first time, the second value and the investment value provided to the employee at a second time; amending the employee stock option, without exercise, to modify: terms of the maturity; terms of the number of shares per option; terms of the dilution protection; or terms of the dividend protection; transferring the

amended stock option to a third party without exercising the amended stock option; and receiving a value from the third party in exchange for transfer of the amended stock option to the third party.

As with claim 1, it is clear in original claim 17 and in claim 17 as it is now amended, that the recited steps in the method occur without exercise of the original employee stock option, or exercise of the amended stock option, and the transfer is of previously issued employee stock options, not the initial issue of the employee stock options. As discussed above, these are some of the central features of the presently claimed inventions and those features are not disclosed by the cited references. In the cited references, where there is any transfer of the employee stock option, the transfer is in conjunction with initial issue (which is not actually a transfer) or in conjunction with exercise of the stock option. None of the references individually or in combination disclose transfers of previously issued employee stock options without exercise.

Because in rejecting claim 17 the Examiner relies on *Rudkin '449* for transfer of the ESO, and *Rudkin '449* does not disclose transfer without exercise, and actually teaches away from the invention of claim 17, Applicants respectfully request withdrawal of the rejection of independent claim 17. Independent claims 19, 23, 24 and 25 have limitations that are substantially similar to independent claim 17 and are allowable over the cited references for the same reasons.

### III. Request for Reconsideration

Applicants respectfully submit that the claims of this application are in condition for allowance. Accordingly, reconsideration of the rejection and allowance is requested. If a conference would assist in placing this application in better condition for allowance, the

undersigned would appreciate a telephone call at the number indicated.

Respectfully submitted,  
Milbank, Tweed, Hadley & McCloy LLP



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Chris L. Holm  
Reg. No.: 39,227

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Milbank Tweed Hadley & McCloy LLP  
1 Chase Manhattan Plaza  
New York, NY 10005  
(212) 530-5000 / (212) 530-5219 (facsimile)

LA1 : #6387449